

STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF MARKET CONDUCT EXAMINATION
of

GREAT WESTERN INSURANCE COMPANY

3434 Washington Boulevard, Suite 300
Ogden, Utah 84401

NAIC Company Code Number: 71480

as of
December 31, 1996

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
SALUTATION	1
FOREWORD	2
SCOPE OF EXAMINATION	2
COMPANY PROFILE	2
History	2
Affiliated Companies	3
Territory and Plan of Operations	3
Policy Forms	4
Reinsurance	4
Company Growth	4
PREVIOUS EXAMINATION FINDINGS	4
CURRENT EXAMINATION FINDINGS	5
Certificates of Authority	5
Consumer Complaints	5
Marketing and Sales	5
Producer Relationships	6
Company Forms/Required Filings	7
Underwriting/Rating	7
Claims	8
SUMMARIZATION	9
Summary	9
Examiner's Comments Reference Policyholder Treatment	10
ACKNOWLEDGMENT	10

July 28, 1997

The Honorable Merwin U. Stewart
Insurance Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions, an examination has been made of the market conduct practices of

GREAT WESTERN INSURANCE COMPANY
Ogden, Utah

a domestic stock life insurance company, hereinafter referred to as the Company, as of December 31, 1996. The report of such examination is herein respectfully submitted.

FOREWORD

The market conduct examination report is, in general, a report by exception. Reference to Company practices, procedures, or files subject to review may be omitted if no improprieties are indicated.

SCOPE OF EXAMINATION

This examination was conducted by an examiner representing the Utah Insurance Department in accordance with the Model Market Conduct Examination Handbook of the National Association of Insurance Commissioners and Utah Code Annotated (U.C.A.) 31A-2, Administrations of the Insurance Laws. The period covered by the examination was July 1, 1990 to December 31, 1996. Where considered appropriate, transactions of the Company prior and subsequent to the examination period were reviewed.

The purpose of the examination was to determine the Company's compliance with the Utah Insurance Code (U.C.A. 31A), and Rules promulgated by the Utah Insurance Department as contained in the Utah Administrative Code (U.A.C.) applicable to U.C.A. 31A, and to determine if Company operations were consistent with public interest.

COMPANY PROFILE

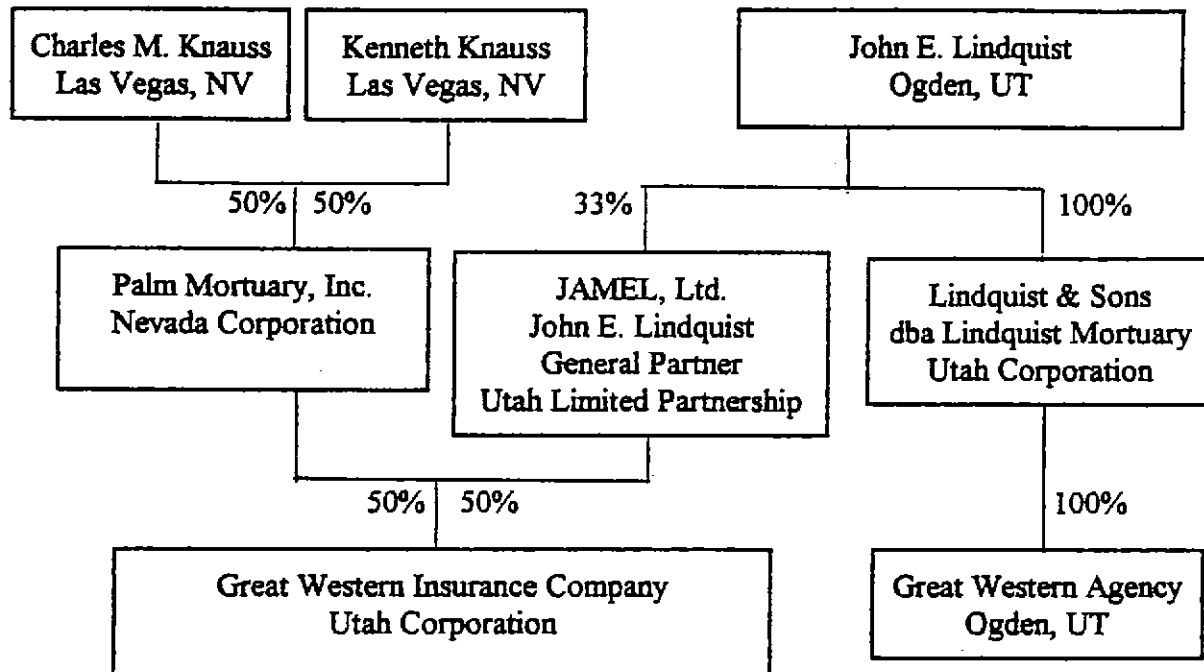
History

Great Western Insurance Company was incorporated as a stock life insurance company under the laws of the State of Utah on March 1, 1983. On April 26, 1983, the State of Utah issued the Company a Certificate of Authority to write life and disability insurance. The Articles of Incorporation provide for a perpetual corporate existence.

In May 1989, the Company's parent corporation, Lindquist & Sons, sold a fifty percent interest in the Company to Desert Lawn, Inc. of Las Vegas, Nevada. On March 18, 1996, Desert Lawn, Inc. and Palm Memorial Estate Plans, Inc. merged to form Palm Mortuary, Inc. As of December 31, 1996, Charles M. Knauss and Kenneth Knauss each owned 50% of Palm Mortuary, Inc.

Affiliated Companies

General payroll and personnel services were performed by an affiliate, Lindquist & Sons under an agreement dated January 23, 1993. The Company assumed these responsibilities from Lindquist & Sons effective January 1, 1997. The following chart depicts the ownership of the Company as of December 31, 1996.



Territory and Plan of Operations

As of December 31, 1996 the Company was licensed to transact the business of life and accident and health insurance in Arizona, Arkansas, California, Colorado, Idaho, Illinois, Iowa, Kansas, Minnesota, Nebraska, Nevada, New Mexico, North Dakota, Oregon, Oklahoma, South Dakota, Texas, Utah and Wyoming, with applications pending in Louisiana, Missouri and Washington. During 1996, premiums were not written in the States of Arkansas, Iowa, Minnesota, Nebraska, North Dakota or Oklahoma. Most premiums written were concentrated in the States of Arizona, Colorado, Idaho, Nevada and Utah.

The Company's products were marketed under a general agency plan. A home office sales staff is maintained to service existing general agents and solicit additional general agents as targeted by the marketing department.

Policy Forms

The Company markets to and services the pre-need funeral industry with limited pay increasing death benefit policies. Products offered by the Company during the examination period include single premium and 1 year, 3 year, 5 year and 10 year paid up policies. Some policies are participating, guaranteed issue, with other plans requiring limited underwriting.

Reinsurance

The Company neither cedes nor assumes reinsurance.

Company Growth

The Company's growth in premium income for the past six years is reported in the following table. Numbers reflected in the table were taken from the Company's filed annual statements.

Premium Income				
	Ordinary Life Insurance	Credit Life Insurance (Group & Individual)	Group Life Insurance	Combined Total
1996	\$4,396,601	\$36,383	\$16,750,756	\$21,183,740
1995	6,318,787	37,976	10,444,362	16,801,125
1994	13,592,893	43,674	0	13,636,567
1993	9,734,334	43,015	0	9,777,349
1992	8,997,448	43,344	0	9,040,792
1991	5,227,389	48,754	0	5,276,143
1990	3,363,817	32,119	0	3,395,936

PREVIOUS EXAMINATION FINDINGS

The previous market conduct examination report as of June 30, 1990 and the financial examination reports as of December 31, 1993 and December 31, 1996 were reviewed. Company responses to the findings and recommendations of the market conduct examination report were also reviewed. All of the recommendations were addressed and corrective actions were taken by the Company.

CURRENT EXAMINATION FINDINGS

Certificates of Authority

The Company's Certificates of Authority were reviewed. The Company is operating within the parameters of its Certificates of Authority. No discrepancies were noted.

Consumer Complaints

A consumer complaints register is maintained by the Company to record consumer direct complaints as well as complaints filed with the insurance departments of the various states in which the Company conducts business. This consumer complaints register was reviewed. The Company's procedure manual for consumer complaint handling was also requested for review. The Company does not have written procedure guidelines pertaining to consumer complaint handling.

Ten complaints were reported to the Company during the examination period, including one consumer direct complaint and nine complaints filed with the various state insurance departments. There were no complaints filed against the Company with the Utah Insurance Department during the examination period. The files for the ten complaints reported to the Company were reviewed. No discrepancies were noted with regard to the complaint files reviewed. In all cases, the complaints were researched by the Company and resolved fairly and in a timely manner.

Marketing and Sales

The Company markets its pre-need funeral insurance products through general agents and agents associated with funeral homes. The Company does not advertise directly to the general public. Advertising to the general public is done through the funeral home agencies. However, the Company does assist the agencies with advertising materials. Some of the materials made available by the Company for the agencies to use in soliciting customers include a funeral guide information booklet, brochures, direct mail solicitation materials, telemarketing scripts, and an emergency alert program. The Company also provides the agencies with other marketing support, such as a general information booklet about the Company and its services, a five-day sales training course, sales management training, individual field sales support and agent incentive programs.

Company marketing and sales materials were reviewed, including a marketing plan, sales training materials, an in-home sales presentation book, brochures, information booklets, replacement materials, application forms and other items. The following discrepancies were noted.

U.A.C. R590-93, Replacement of Life Insurance and Annuities, requires with or as a part of each life insurance application a statement signed by the agent as to whether or not he or she knows replacement is or may be involved in the transaction. Three policy files were reviewed in which a statement to that effect was not included with or as a part of the application accepted by the Company during the examination period. In each of these cases a previously filed application form number A104-592 was used. The Company corrected the error on subsequently filed application forms by including a statement the agent is to complete by marking "yes" or "no" as to whether replacement is involved. Failure to require a signed statement by the agent as to whether or not he or she knows replacement is or may be involved in the transaction is a violation of U.A.C. Subsection R590-93-7.B.2.

U.A.C. R590-93 also requires the Company to maintain a life replacement register, cross-indexed by the replacing agent and existing insurer to be replaced. The Company did not maintain a life insurance replacement register during the examination period. However, it appears very little replacement was involved during that period. Failure to maintain a life replacement register is a violation of U.A.C. Subsection R590-93-7.C.3.

Producer Relationships

The Company utilizes general agents and agents associated with funeral homes to market its products. It does not utilize managing general agencies or third party administrators. Producer information on all producers, including producer files, contracts, correspondence, production reports, etc. are maintained at the Company's premises.

The Company provided a list of Utah producers currently representing the Company. This list was compared with the Utah Insurance Department list of producers appointed with the Company. In connection with this comparison, also reviewed were the Company's producer contract files, producer contract language, new business production reports, Company commissions paid to producers and other materials. The following discrepancies were noted.

Sixteen agents produced business for the Company prior to being appointed by the Company. Four of those agents produced business for the Company when no agency contract was in effect. At least fourteen of the sixteen agents were paid commissions by the Company prior to having an appointment and/or written agency contract in effect. Two of those agents were paid commissions for business produced while not licensed. One of the non-licensed agents producing business had previously been licensed, but the license had lapsed and the agent continued to produce business for the Company. The Company has contracted with two agents who have not been licensed or appointed. One agency was licensed and appointed, but was not contracted with the Company. Producing business without an appointment and a written agency contract in effect is a violation of U.C.A. 31A-23-309. Failure to appoint an agent prior to the agent doing business for the Company is a violation of U.C.A. 31A-23-219(1). Compensating a person for services performed as an agent, while the insurer should have known the payee was not licensed, is a violation of U.C.A. 31A-23-404(1).

Several of the agency contracts were not properly completed. In five cases, the date of the contract was not completed in the agency contracts. In at least four cases the agents were licensed under one name, but were listed on the Company's agency contracts under a different name. In at least three additional cases, agents were licensed under one name, but were listed on other Company records under a different name.

Company policies and procedures manuals were also requested for review. The Company does not have a policies and procedures manual covering the area of producer relationships.

Company Forms/Required Filings

The Company's forms and required filings were reviewed, including policy forms, riders, certificates, application forms and disclosures. Company forms and filings were compared with Utah Insurance Department filings. Forms used in the Company's products have been properly filed. No discrepancies were noted.

Underwriting/Rating

The Company offers guaranteed issue policies as well as policies requiring limited underwriting. For policies offered by the Company as of December 31, 1996, the limited underwriting primarily consisted of determining whether an applicant qualifies to be issued a policy with full first-day coverage benefits or a guaranteed issue policy in which death benefits are generally limited for the first two years. This determination is based on two health questions on the application form. If either of the health questions is answered "yes", or is not answered, the applicant is issued a guaranteed issue limited death benefit policy. Otherwise the applicant is issued the full first-day coverage plan. No physical examination is required in either case.

There is no difference in the rates between the guaranteed issue policy and the full first-day coverage policy. However, rates vary with either plan according to the applicant's age, the payment plan and the mode of payment.

There were no applications denied by the Company during the policy period. Policies which were either canceled, lapsed or not taken by the insureds during 1996 were reviewed. The available population of policies in each of these categories and the sample selected and reviewed are shown in the table below.

Category	Available Population	Sample Selected and Reviewed
Canceled	28	10
Lapsed	13	5
Not Taken	30	10

No underwriting or rating discrepancies were noted as a result of this policyholder file review. However, discrepancies relating to marketing and sales activities were noted during the review (see Marketing and Sales section of this report concerning replacements).

Claims

General

All claims are processed directly by the Company through its claims personnel. The Company has written procedures detailing how claims are to be processed. No discrepancies were noted in a review of these procedures.

Claim File Review

The Company processed four thousand five hundred fifty claims during the examination period, of which one thousand three hundred were Utah claims. Three hundred forty-seven Utah claims were filed with the Company during 1996. A sample of thirty-five of the 1996 Utah claims were selected on a systematic interval basis.

Eighty-eight percent of the Company's claims reviewed met the Utah Insurance Department's guideline of settlement within thirty days of receipt of the claim. The Company's average calendar days from receipt of the claim until settlement was twenty-one days. Those claims which were not settled within thirty days required additional research time to investigate and adjudicate the claim. In one of those cases in which the investigation was not completed within thirty days, the Company failed to communicate with the claimant at least every thirty days until the claim was either paid or denied. Failure to properly communicate with the claimant at least every thirty days is a violation of Utah Insurance Department Rule R590-89-12(B).

Three of the claim files reviewed were not adequately documented, in that proof of payment to the beneficiary and/or contingent beneficiary was not maintained in the file. In each case, the discrepancy was pointed out by the examiner and subsequently corrected by the Company. Failure to adequately document the claim file is a violation of Utah Insurance Department Rule R590-89-8.

SUMMARIZATION

Summary

Comments included in this report considered to be significant and requiring special attention are summarized below:

1. U.A.C. R590-93 requires the Company maintain a life insurance replacement register, cross-indexed by the replacing agent and existing insurer to be replaced. The Company did not maintain a replacement register during the examination period. This is a violation of U.A.C. Subsection R590-93-7.C.3. The examiner recommends the Company establish and maintain a properly cross-indexed life insurance replacement register. **(MARKETING AND SALES)**
2. Sixteen agents produced business for the Company prior to being appointed by the Company. Four of those agents produced business for the Company when no agency contract was in effect. At least fourteen of the sixteen agents were paid commissions by the Company prior to having an appointment and/or written agency contract in effect. Two of those agents were paid commissions for business produced while not licensed. One of the non-licensed agents producing business had previously been licensed, but the license had lapsed and the agent continued to produce business for the Company. The Company has contracted with two agents who have not been licensed or appointed. One agency was licensed and appointed, but was not contracted with the Company. Producing business without an appointment and a written agency contract in effect is a violation of U.C.A. 31A-23-309. Failure to appoint an agent prior to the agent doing business for the Company is a violation of U.C.A. 31A-23-219(1). Compensating a person for services performed as an agent, while the insurer should have known the payee was not licensed, is a violation of U.C.A. 31A-23-404(1). The examiner recommends procedures be implemented or changed to ensure, in all cases, producers are properly licensed and have an appointment and written agency contract in effect prior to doing business for the Company. **(PRODUCER RELATIONSHIPS)**
3. Several of the agency contracts were not properly completed. In five cases, the date of the contract was not completed in the agency contracts. In at least four cases the agents were licensed under one name, but were listed on the Company's agency contracts under a different name. In at least three additional cases, agents were licensed under one name, but were listed on other Company records under a different name. The examiner recommends procedures be implemented or changed to ensure the agency contracts be properly completed. Contract dates should be filled in and agents should be listed on agency contracts and other Company records under the same name in which they are licensed. **(PRODUCER RELATIONSHIPS)**

4. Company policies and procedures manuals were requested with regard to each of the areas reviewed during the examination process. Policies and procedures manuals were not in place for the areas of producer relationships or consumer complaints. The examiner recommends the Company prepare policies and procedures manuals covering all areas of Company operations. **(PRODUCER RELATIONSHIPS, CONSUMER COMPLAINTS)**

5. Three of the claim files reviewed were not adequately documented. In all three cases, proof of payment to the beneficiary and/or contingent beneficiary was not maintained in the file. In each case, the discrepancy was pointed out by the examiner and subsequently corrected by the Company. Failure to adequately document the claim file is a violation of Utah Insurance Department Rule R590-89-8, Unfair Claims Settlement Practices Rule. The examiner recommends the Company review and/or implement quality control procedures to ensure all claim files be adequately documented by the Company. **(CLAIMS)**

Examiner's Comments Reference Policyholder Treatment

Except as otherwise noted in this report, policyholders were generally treated correctly and fairly by the Company. Underwriting and rating practices appear to be fair and consistent. Claims appear to be investigated promptly and settled as soon as proper documentation is received from the claimants. Complaints were generally researched and handled in an expeditious manner.

ACKNOWLEDGMENT

The cooperation and assistance rendered by the officers and employees of the Company during this examination is hereby acknowledged and appreciated.



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Market Conduct Examiner
Examiner-in-Charge
Utah Insurance Department